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THE SPIRIT OF THE AMERICAN PATENT SYSTEM

BY GILBERT HOLLAND MONTAGUE

ON March 11, 1912, the United States Supreme Court decided the so-called Mimeograph Case (*A. B. Dick Company vs. Sidney Henry, et al.*). The court decided simply that the defendant Henry was guilty of infringing the Dick mimeograph patent, in that he had deliberately and intentionally supplied spurious ink to a mimeograph user, expecting and intending that it be used in violation of a license restriction to which the user, as Henry well knew, had expressly agreed when she acquired the mimeograph—which license restriction required that the mimeograph be used only with Dick's ink. The court below expressly found that Henry, with malice aforethought, had instigated the user thus to violate the agreement which she had agreed to when she acquired the machine. Indeed, Henry had even shown the user how she could pour the spurious ink into the Dick bottle and by throwing away Henry's bottle destroy all the evidence of her wrongful act. All that the Supreme Court said was that this infringed Dick's patent rights.

The opinion, that stands as the decision of the Supreme Court in this case, was written by Justice Lurton, with whom concurred Justice Holmes, Justice Van Devanter, whose experience in patent law while Circuit Judge was very thorough, and Justice McKenna, who four years ago wrote the opinion of the Supreme Court in the most important patent case of recent years—the Paper Bag Case—with which opinion Chief-Justice White, then an Associate Justice, entirely concurred. President Taft, when a Circuit Judge, sat with Judge Lurton and repeatedly concurred with Judge Lurton's opinions in patent matters. Justice Day did not hear the argument, and took no part in the decision.

Justice Pitney became a member of the court after the case was argued, and therefore had no part in the decision. For this reason, and also because of the important bearing of the decision on prosecutions under the Sherman Anti-Trust Act, then pending in the Federal courts, the Attorney-General asked leave to be made a party and requested a rehearing. By the determination of the full bench, on April 8, 1912, this application was denied. This action of the Supreme Court, it is not unfair to surmise, indicates that a rehearing before the full bench, as now constituted, would not have changed the decision.

The Supreme Court's opinion in the Mimeograph Case simply stated the law as established by an unbroken line of previous decisions in the United States and Great Britain, and in every English-speaking jurisdiction. With these decisions, Chief-Justice White and Judge Taft, as their entire judicial records show, had heretofore been in absolute agreement. Chief-Justice White, however, disagreed with this decision. In a dissenting opinion, that went reverberating through Congress and set the note for most of the public discussion of the subject, he declared that this decision tended "to extend the patent, so as to cause it to embrace things which it does not include" and permitted the patent-owner "to extend his patent rights, so as to bring within the claim of his patent interests which are not embraced therein, thus virtually legislating by causing the patent laws to cover subjects to which, without the exercise of the rights of contract, they could not reach."

Now, the all-important circumstance, which the majority of the Supreme Court held clearly in view, but which Chief-Justice White completely overlooked, is that no license restriction, such as the Mimeograph Case involved, is enforceable, or ever has been enforceable, or ever can be enforceable, under the law, unless the restriction be *brought home to the person acquiring the title at the time the article is acquired*. To make a license restriction enforceable, the patent-owner must give the purchaser notice that he buys the machine with only a qualified right of use. The notion, engendered by Chief-Justice White's dissenting opinion, that Henry would have been held as an infringer if any mimeograph-user had bought his ink at a corner drug-store has absolutely no foundation in fact. Only such dealers as sell supplies to users whom they *know* have

bound themselves by license restrictions forbidding the use of such supplies, and whom they *expect* and *intend* and *know* will use their supplies to violate this license restriction, and whom they deliberately instigate in this nefarious enterprise, have anything to fear from the Mimeograph Case.

Since Chief-Justice White overlooked this point, it is hardly strange that the public should have ignored it.

For several years, disgruntled competitors have frequently charged, without any specific proof, that certain big corporations are making it a practice to "pigeon-hole" or "lock up" or otherwise keep in disuse patents that they controlled. From time to time, zealous enemies of the "trusts" have proclaimed their intention to "invade the Patent Office." To these, Chief-Justice White's dissenting opinion in the Mimeograph Case came as an alarm. Before the decision was six weeks old, Congress swarmed with bills designed to make over the entire American patent system.

Several bills were introduced which provided that anybody obtaining a license to use the article embodying a patented invention should have an absolutely "unrestricted right," regardless of any qualifying agreement which he had made with the patent-owner as a condition of obtaining the article, to use, sell, or lease the article, without any liability whatsoever for an infringement of the patent.

In one form or another, all these bills prohibited the enforcement of any kind of license restriction in a suit for patent infringement. The dissenting opinion in the Mimeograph Case was the intellectual parent of most of these bills.

Several bills were introduced which provided that unless the patent be worked within three or four years after it was issued, or unless the owner should show "sufficient causes for such inaction," the patent-owner should grant to any applicant the license to use the patented invention; and in the event of the refusal of the patent-owner so to do the District Court should hear the applicant, and if satisfied that the "reasonable requirements of the public in reference to the invention have not been satisfied," the court should compel the patent-owner to grant a license to the applicant, upon such terms and for such royalty as the court "deems just." Several bills provided also, that,

at any time during the life of a patent, whenever "a material and substantial improvement shall be patented, the manufacturer of which would be an infringer on the original patent," the owner of an improvement might, upon application to the court, compel in like fashion the owner of the original patent to grant a license to enable such improvement to be manufactured.

In one form or another, all these bills provided for what are called "compulsory licenses." The dissenting opinion in the Mimeograph Case was, in a measure, the sponsor, and stood somewhat in the relation of godparent, for the theory of these bills.

During April and May of this year, public hearings were held by the House Committee on Patents upon an omnibus measure, introduced by its chairman and called the Oldfield Bill, that embodied most of these proposals. Only the opposition of the manufacturers and inventors, who appeared in large numbers and impressive unanimity against the bill, prevented action upon it this spring. Upon the eve of adjournment, in August, however, the Committee reported a substitute bill which, in language somewhat different from the original bill, provided for compulsory licenses and the non-enforceability of license restrictions, extended the application of compulsory licenses to an earlier date in the life of the patent than had the original bill, and excepted "original inventors," under certain conditions, from compulsory licenses. The substitute bill contained, in essentially the same form, the provisions which had caused opposition to the original bill. In addition, the substitute bill contained a number of provisions extending the application of the Sherman Anti-Trust Act, wherever patents are involved, to specific transactions which are not now covered by the Sherman Anti-Trust Act, and which, if no patents were involved, would, under the existing law, or even under the substitute bill (if passed), lie outside the prohibition of the Sherman Anti-Trust Act.

This substitute bill, which the House Committee on Patents has announced it will press for passage when Congress reassembles in the winter, provides for compulsory licenses by declaring that if any applicant shall establish, in a Federal District Court, that a patent-owner, who has purchased a patented invention from the original inventor, is withholding it "with the result of preventing any other person

from using the patented process " more than three years after the patent is issued, the court shall order the patent-owner to grant to the applicant a license to use the invention upon such terms or royalty as the court " deems just." The non-enforceability of license restrictions is accomplished by a provision that the patent-owner shall no longer be permitted to bring an action for infringement of the patent, when the purchaser, lessee, or licensee of the patented article has committed a breach of the contract of sale, lease, or license, by the conditions of which he obtained the patented article. An arbitrary extension of the Sherman Anti-Trust Act to cases involving patents is effected by providing that a violation of the Sherman Anti-Trust Act shall be conclusively presumed from each of the following transactions, *ipso facto*, regardless of any surrounding circumstances: Whenever the vendor of any patented article restricts the price at which such article shall be resold; or makes any discrimination in the price based on whether a customer buys goods of a particular quantity or aggregate price; or whether a customer buys an article from somebody else; or whenever the vendor of a patented article makes any condition of sale or agreement with a customer against the purchase of some other article; or refuses to supply somebody; or consents to supply somebody only on terms or conditions less favorable than he accords to anybody else; or arranges to give a customer the exclusive right of sale in certain territory; or supplies a patented article at a price below the cost of production. The substitute bill further provides that in all anti-trust prosecutions, in which patents are involved, the Draconian remedies shall be applied which Senator La Follette, last winter, sought to enact as amendments to the Sherman Anti-Trust Act, for application in anti-trust prosecutions of every sort.

This substitute bill, therefore, proposed ostensibly as an amendment to the patent laws, attempts to extend the Sherman Anti-Trust Act in a manner not suggested by the original bill, nor discussed by any one upon the hearings held this spring by the Committee having the original bill in charge, nor foreshadowed by any legislation previously proposed in either branch of Congress. More radical than Senator La Follette's proposals to amend the Sherman Anti-Trust Act, which avowedly apply to all articles of commerce, unpatented as well as patented, this substitute

bill, by excluding from its scope all transactions involving unpatented articles and limiting its application exclusively to patented articles, discriminates drastically against patented articles, and grossly in favor of unpatented articles.

What vandalism this substitute bill would work, in violation of the spirit and policy of the American patent system, can scarcely be exaggerated.

The American patent system, in its spirit and policy, was one of the most original conceptions of the Federal Constitutional Convention.

The only patent system in existence, in 1787, was that of Great Britain, which was designed primarily not to vest in inventors property rights in the results of their inventive thought, but rather to reward, by grants of special privileges, persons who had brought into Great Britain either a new industry or an improvement in an industry already established.

Throughout the Federal Convention, however, and in the legislation of the first Congress, a different theory prevailed. With the same discernment that marked the rest of its work, the Convention realized that, if inventive thought, simply as such, were recognized and guaranteed its just compensation, new industries and improvements would follow as matter of course. The original proposition before the Convention was "to establish public institutions, rewards, and immunities for the promotion of agriculture, commerce, and manufactures." But the Convention saw that this object could most directly be accomplished by insuring that the results of inventive thought, whatever they might be, should belong to the inventor just as surely as the results of other forms of labor belonged to the worker who produced them. Therefore, instead of bestowing upon the inventor, as matter of favor, a special privilege or bounty, the Convention determined to dignify his toil by making its results the inventor's own property. Brain property was thus raised to the dignity of tangible property. The inventor could use or suppress or dispose of the results of his inventive thought as freely and as absolutely as the worker of tangible things could use, or suppress, or dispose of the results of his creative labor.

With this exception, however—and this is the only trace of "communism" in the Constitution—that while the worker in tangible things can use, or suppress, or dispose

of the products of his creative labor so long as they exist, without limit as to time or condition, the inventor is permitted to use, or suppress, or dispose of the results of his inventive thought only for a "limited time," and then only upon performing certain conditions which involve publishing them to the world; so that, at the expiration of that time, the results of his inventive thought shall become absolutely public property which any one may use, without price or restriction.

This the Convention accomplished in Article I., Section 8, Clause 8, of the Constitution, by simply authorizing Congress "to promote the progress of science and useful arts, by securing, for limited times, to authors and inventors the exclusive right to their respective writings and discoveries." The first American Congress, acting under the recommendations of President George Washington and Alexander Hamilton's "Report on Manufactures," did the rest by enacting the first patent law, which has since been amended so that to-day this "limited time" is fixed at seventeen years. During this "limited time," to quote Section 4884 of the Revised Statutes, the patent-owner has "the exclusive right to make, use, and vend the invention or discovery."

This "exclusive right" is, in effect, three "exclusive rights": the "exclusive right" to make, the "exclusive right" to use, and the "exclusive right" to sell the patented article. Since the patent-owner's "exclusive right" is thus composed of the "exclusive right" to make, the "exclusive right" to use, and the "exclusive right" to sell the patented invention, the patent-owner may, according as he sees fit, dispose of one or more, or any part of all these component "exclusive rights." Thus, when he elects to manufacture the patented article himself, he reserves to himself the "exclusive right" to use and to sell the patented article. Again, if he elects not to sell the patented article, but simply to lease it on a royalty basis, he reserves to himself the "exclusive rights" to make and to sell, and disposes simply of the right of use. Similarly, if he elects to dispose of only part of the "exclusive right" to use the patented article, he may reserve to himself the "exclusive right" to make and sell the patented article, and also part of the "exclusive right" of use, and may dispose of simply a portion of his "exclusive right" of use, by granting

merely a limited right of use: simply, for instance, the right to use the patented article only under such conditions and only with such supplies as the patent-owner shall prescribe.

Like the owner of any other property, the patent-owner "cannot be compelled to part with his own, except on inducements to his liking." Like the owner of unimproved real estate, the patent-owner may decline to use his property or to allow others to use it. Like a real-estate owner who prefers to continue as owner, the patent-owner may reserve to himself the right of ownership and sale, and by lease or otherwise simply dispose of part of the right to use the property. Like every real-estate owner that is a landlord, the patent-owner may require that his property be used only under certain specified conditions and for certain specified purposes and with certain specified accessories.

These rights of the patent-owner are neither greater nor more unusual than the familiar rights of real-estate owners or other property-owners. Indeed, the patent-owner's rights are vastly curtailed, as contrasted with the rights of other property-owners, in that the owners of every other form of property may exercise the rights above described for so long a period as they and their successors may desire; while the patent-owner may exercise none of his rights beyond the duration of his patent, and at the expiration of the statutory period of seventeen years must relinquish to the public all of his rights.

"The patent system," said Abraham Lincoln, "added the fuel of interest to the fire of genius, in the discovery and production of new and useful things." By vesting brain property, for the short period of seventeen years, with the common attributes that tangible property perpetually has, the American patent system furnished the "fuel of interest" needed to feed "the fire of genius, in the discovery and production of new and useful things." In the emphatic language used, in 1878, by the Senate Committee on Patents: "The protection which the patent gives a patent-owner in the results attained induces him, and is all that will induce him, to expend the time and the money—often several hundred thousand dollars upon a single machine—in perfecting the invention, and embodying it in a practically useful machine, and introducing it to public use."

How inconsistent with the spirit of the American patent

law are the proposals contained in the bills above described must now clearly appear.

Patent-owners have an interest in the standing, reputation, and commercial desirability of their patented articles, and may insist upon such conditions, in respect to their use by their customers, as shall insure to their customers, no less than to the patent-owners and to all prospective customers, the standing, reputation, and commercial desirability of the patented article. Instances of ingenious and delicate machines, each nicely adapted to perform one stage of a manufacturing process, and together, as an industrial series, nicely, accurately, and precisely adjusted to take the raw materials through the successive stages in the process of manufacture until the finished product is eventually turned out, may be found in many highly developed manufacturing industries. As to any patented article of the class of particular types of machines just described, it is obviously proper that the patent-owner, in order to insure satisfactory results to the user, and to preserve for himself such commercial value as accrues from the assured satisfactory operation of his machine, may require that the machine be used only with such specially adapted machines and in such particular manner as will insure satisfactory results to the user. The notion that the patent-owner owes any duty to the community to allow every user of the patented article to experiment with any supplies that the user can find, or to use, in any manner that the user can think of, a patented machine that has been delicately contrived for just one particular use, has no support whatsoever in law or reason. To suggest that the user of the patented article has some kind of natural right to experiment, as much as he likes, with unauthorized supplies, is as ridiculous as to suggest that a tenant has a God-given right to use his landlord's premises in any manner that violates the condition of the lease.

Equally revolutionary is the proposal involved in the agitation for compulsory licenses. How impossible of fair and just solution is the problem which such a law would set for the courts was conclusively proved by the manufacturers and inventors who testified recently before the House Committee on Patents.

One illustration only, out of those cited, can here be quoted :

"The cable-ways produced by our company," said the

chief-engineer of a world-famous company engaged in developing hoisting machinery, "were all patented. No sooner had the first cable-way been sold than the commercial pirate saw the machine and wanted to copy it. He could have copied ninety per cent. of that machine without infringing on a patent. The difference between success and failure was a device known as a fall rope carrier or rope support. When he failed to produce a fall rope carrier or rope support, which was an essential feature for success, he failed to make a successful cable-way to compete with our cable-way. Now, we have five or six other patents on fall rope carriers, none of which is as good as the one we used, but any one of which would do the work. Under the compulsory-license law we would lose all the advantage of ninety-nine per cent. of the machines that had been produced at tremendous expense, if the commercial pirate could obtain a compulsory license for the fall rope carriers. The clause proposed leaves it to a district judge to fix the royalty. What would a district judge say when a man comes before him and says, 'I want to build that carrier'? The judge says, 'How much does the carrier cost?' He replies, 'Fifty dollars.' 'Well,' the judge says, 'you pay a royalty of ten per cent.; that is, five dollars.' Now, we lose the sale of cable-ways, at \$12,000 each, and our compulsory licensee gets all the advantage for perhaps fifty dollars royalty."

Even more unfair would be the working of such a law in the case of a really "pioneer" invention—one so far ahead of the existing art that most of the seventeen years' period of the patent must elapse before the industry reaches a development that makes the invention usable.

"A client of ours," explained a patent lawyer to the Committee, "devised a certain entirely new form of furnace. We are informed that only one patent has been granted upon this form of furnace, and that was to our client. The patent was issued some six years ago. At the time it was issued it was in advance of the art. It was based upon a very little known chemical principle, which had never been applied to furnaces, and the inventor was regarded as impractical. The invention was such that in order to give it a thorough trial it would have been necessary to expend at least \$25,000, and probably more. The inventor was practically penniless, and often found it difficult to provide for even the simplest needs of his family. Under

the circumstances he himself could not possibly work the invention, nor could he interest any company of sufficient size to even experiment with it. People did not understand it; they regarded it as impractical and purely theoretical. Last year a certain European scientist of reputation conducted a series of experiments on the combustion of gases. In the course of these experiments he evolved very much the same ideas as did our client, and he published the results of these experiments together with his theories on the subject. He was a man of such standing that his word carried weight, and, as a consequence, what was before regarded as entirely impractical is to-day regarded as at least feasible from an operative standpoint; so that now, six years after the grant of his patent, the inventor is just in a position to get his invention adopted and placed upon the market.

“If this law is to go into effect, an inventor under such circumstances would lose the right to a monopoly of his invention—the right to make adequate terms upon which it could be used or manufactured—through no fault of his own, but simply because the average knowledge of the world lagged behind his inspiration. He could no longer obtain the price for his invention which he might if there was no compulsory license law; because the first company to whom he would present the invention would insist that the value of the patent was very much reduced, by reason of the fact that other companies could come into the market by securing a license under the patent. It might be that no other companies would desire to secure a license, or that few companies would; but, nevertheless, this excuse would be used by the first company. The inventor would get a comparatively inadequate return, and he might never be adequately compensated.”

Inventions such as that just described are more than mere “improvements.” They are the landmarks of industrial and social progress. To change the law so that its harshest provisions shall be directed straight at the most meritorious work of the inventive mind is plain vandalism.

The pretext on which the proposal for compulsory licenses rests is that some corporations buy valuable inventions to suppress. “But,” as Mr. Thomas A. Edison told the Committee, “no one cites specific cases.”

“I myself,” adds Mr. Edison, “do not know of a single

case. There may be cases where a firm or corporation has bought up an invention, introduced it, and afterward bought up an improvement and ceased using the first patent—suppressed it, in fact. Why should that not be done? It is for the benefit of the public that it should get the latest improvement. I cannot see why the public should be asked to change the patent law to enable a competitor to get hold of the disused patent, so he could have a basis on which to enter into competition with the pioneer of the invention who has introduced an improved machine. Before any changes in the law are made, let the objectors cite instances where injustice has been worked on the public by the alleged suppression of patents for other reasons than those which were due to improvements.”

The increasing difficulties of existence, presented in our rapidly expanding population and the rising cost of all necessities of life, are everywhere taxing the efficiency of our institutions. Greater productivity of the soil and of the arts, greater economy in distribution, greater control of disease, and added length and comfort of life will all depend upon the continued bright burning of what Lincoln happily called “the fire of genius in the discovery and production of new and useful things.” “The fuel of interest” which this fire of genius requires can no more effectually be destroyed than by enacting into law provisions forbidding license restrictions and providing for compulsory licenses.

In 1878, in the midst of the granger agitation and the greenback hysteria, a similar attack was made upon the patent system, which the Senate Committee on Patents, in a ringing report, effectually refuted and demolished. “No change,” it declared, “should be made in the patent law to weaken the inducement which, in the ordinary and normal operations of the common transactions of business, it offers to those who will successfully invent, and to those who, by perseverance and expenditure, will perfect inventions and the machine in which they are embodied, and push their introduction so as to put the public in possession of perfectly working machines and a perfectly finished product.”

Since our need for those who will successfully invent is to-day far greater than in 1878, it is devoutly to be wished that the courage and good sense which then prevailed may not be lacking at the present day.

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